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Evolution of the Indian Banking Sector

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The Indian banking sector has undergone a massive and structural transformation over the past few decades, evolving from a highly regulated environment into a dynamic, technology-driven financial ecosystem. The historic economic liberalization policies initiated in July 1991 marked a watershed moment for the country, completely changing the fundamental operational guidelines for commercial banks. Prior to these extensive reforms, the banking industry was largely dominated by state-owned public sector banks, which often suffered from bureaucratic inefficiencies and a lack of technological advancement. To address these critical issues, the Reserve Bank of India (RBI), which serves as the supreme monetary authority and regulatory body, gradually introduced a series of banking licenses to private sector entities. This strategic decision injected much-needed competition into the market, compelling traditional banks to upgrade their customer service standards and rapidly adopt computerization. However, the journey of financial reform has not been without its major hurdles. One of the most significant challenges that plagued the Indian economy during the last decade was the alarming accumulation of Non-Performing Assets (NPAs) on the balance sheets of public sector banks. When large corporate borrowers defaulted on their massive loans, it severely restricted the lending capacity of the banks, thereby slowing down the overall industrial growth of the nation. To combat this severe crisis, the government enacted the Insolvency and Bankruptcy Code (IBC) in the year 2016. The implementation of the IBC was a revolutionary legal step because it created a time-bound, transparent mechanism for the resolution of corporate insolvency, empowering creditors to recover their legitimate dues efficiently. Furthermore, the modern banking landscape has been completely revolutionized by the rapid penetration of digital technology and internet connectivity. The ambitious launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) on August 28, 2014, successfully integrated millions of unbanked citizens into the formal financial system by opening zero-balance accounts. Today, the widespread adoption of the Unified Payments Interface (UPI) has made India a global leader in the digital payments sector, processing billions of secure, real-time transactions every single month. Looking towards the future, commercial banks are increasingly leveraging advanced artificial intelligence and machine learning algorithms to detect fraudulent transactions, assess credit risks, and provide highly personalized financial products to their vast customer base. The integration of modern financial technology companies, commonly known as fintech startups, with traditional banking institutions is creating

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a highly collaborative environment that promises to deliver affordable banking services to the most remote corners of the country. Maintaining a robust, transparent, and strictly regulated banking sector is absolutely indispensable for sustaining high economic growth and achieving the ambitious target of becoming a developed nation in the coming decades.

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